Platinum International Brands Fund

James Halse
Portfolio Manager

Performance

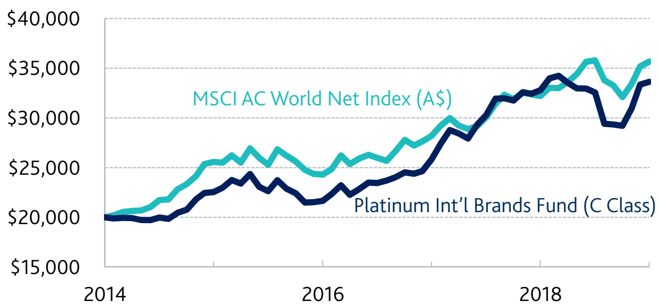
(compound pa, to 31 March 2019)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Brands Fund*	15%	3%	16%	11%	13%
MSCI AC World Index^	11%	11%	14%	12%	3%

* C Class – standard fee option. Inception date: 18 May 2000.
After fees and costs, before tax, and assuming reinvestment of distributions.
^ Index returns are those of the MSCI All Country World Net Index in AUD.
Source: Platinum Investment Management Limited, FactSet.
Historical performance is not a reliable indicator of future performance.
See note 1, page 5. Numbers have been subject to rounding adjustments.

Value of $20,000 Invested Over Five Years

31 March 2014 to 31 March 2019



After fees and costs, before tax, and assuming reinvestment of distributions.
Historical performance is not a reliable indicator of future performance.
Source: Platinum Investment Management Limited, FactSet.
See notes 1 & 2, page 5.

The first quarter of 2019 again demonstrated the power of financial markets to confound investor expectations, and the value in investing with the mindset of being "fearful when others are greedy and greedy when others are fearful".

The Fund (C Class) returned 15.1%, rebounding solidly ahead of global markets (+11.2%[1]), aided by both our exposure to outperforming Chinese stocks and an increased exposure to internet platforms (which had borne the brunt of the vicious market sell-off in late 2018). A number of headlines may be cited as an explanation for the global rebound, from dovish statements by the US Federal Reserve to a loosening of monetary policy in China (discussed in our December 2018 quarterly report), and growing expectations that a resolution will be reached in the US-China trade dispute. Perhaps more simply, market participants had become too pessimistic about the outlook for the global economy and what that implied for the earnings prospects of the companies that make up the global stock markets. A partial reversal of this pessimism was enough to send stocks on a rally from their December lows.

After a torrid 2018, who would have expected key domestic Chinese stock market indices to show increases of 20-30% in the first three months of 2019, leading other markets in the rebound? Markets will often catch investors out by the rapidity with which a change in sentiment – often based on some slight movements in reported data or company commentary – can drive large re-ratings of stocks, at both an aggregate and individual stock levels. As investors, our aim is to turn these market movements to our benefit. Volatility such as that we have recently experienced provides many opportunities for investors who can remain rational in the face of the noise of market commentary and the negative feedback loop of falling stock prices.

During the sell-off late last year and in the early stages of the subsequent rebound, we sought to practise what we preach and increased the Fund's net exposure by reducing our aggregate short exposure and deploying available cash into long positions in stocks that had become significantly more attractively priced. This approach boosted our returns in the March quarter.

1 MSCI All Country Word Net Index in AUD terms.

Key contributors to the Fund's performance during the quarter included India's fast-growing Yes Bank (+52%), which benefited from the resolution of internal management upheaval, causing investors to take a more positive view on its prospects. Underwear and sports fashion apparel manufacturer Hanesbrands (+44%) rebounded from depressed levels after reporting better-than-expected financial results. Ultra-premium Chinese liquor maker Kweichow Moutai (+48%) impressed investors with a level of consumer demand for its products that remained undented by the country's economic slowdown, as well as its plan to sell more products direct to the consumer, which will allow the company to capture more of the (large) distributor margins. Likewise, continued strong results and the change in sentiment towards Chinese stocks drove outsize gains for sportswear maker Anta (+42%), e-commerce giant Alibaba (+33%), and liquor maker Jiangsu Yanghe (+41%). Quarterly performance by French luxury goods makers Kering (+26%) and LVMH (+27%), car dealer China Yongda (+31%), Chinese auto maker Guangzhou Auto (+19%) and casino operator Melco International Development (+15%) all benefited from the dramatic shift in investor perception of the health of the Chinese consumer as well as the depressed starting valuations.

Due to the rebound in the quarter, our short exposure was a net drag to the Fund's performance, taking about 90 basis points off our return. This is a reasonably pleasing result, however, given that the collective increase in the stock prices of our short positions (6% in AUD terms) was well below the increase in the overall market. We will continue to selectively target shorts on certain secularly challenged and/or dramatically overvalued companies, as we believe we can generate positive absolute returns while also managing our overall portfolio risk in this manner. Indeed, we successfully closed for a profit two short positions in the "dramatically overvalued" category in early February.

Long-term investors in the Fund (as well as regular readers of this quarterly report) will be familiar with the ongoing repositioning of the portfolio to reflect the changing behaviour of consumers and the growing influence of internet platforms on our everyday lives. Whether you are "liking" a photo on Facebook or Instagram, learning from one of the seemingly infinite number of tutorials on YouTube, getting directions from Google Maps, or researching properties or cars for sale on your preferred websites, you are engaging with consumer services that increasingly add value to our daily lives. These services allow us to stay in touch with friends and family, access almost endless pools of global expertise instantaneously, easily locate that hole-in-the-wall restaurant your friend told you about in the back streets of a bustling metropolis, and even find the house or car of your dreams (not to mention your preferred price-point).

Fortunately for the Fund, many of the companies in this area that were considered high-flying market darlings lost some of their attraction for investors as stock markets sold off last quarter, which provided the Platinum investment team with a bounty of opportunities unseen for some time. We took the opportunity to add several new stocks to the portfolio, and increased our weighting in others. For this, we were rewarded handsomely as the market rebounded this quarter.

Disposition of Assets

REGION	31 MAR 2019	31 DEC 2018	31 MAR 2018
Asia	40%	41%	38%
North America	24%	23%	18%
Europe	14%	12%	17%
Japan	8%	8%	12%
Russia	4%	4%	5%
Middle East & Africa	<1%	1%	1%
Latin America	0%	2%	3%
Cash	9%	9%	7%
Shorts	-15%	-16%	-18%

See note 3, page 5. Numbers have been subject to rounding adjustments.
Source: Platinum Investment Management Limited.

For further details of the Fund's invested positions, including country and industry breakdowns and currency exposures, updated monthly, please visit https://www.platinum.com.au/our-products/pibf.

Net Sector Exposures ^

SECTOR	31 MAR 2019	31 DEC 2018	31 MAR 2018
Consumer Discretionary	33%	29%	37%
Communication Services	23%	20%	12%
Financials	10%	11%	10%
Consumer Staples	6%	9%	9%
Industrials	3%	4%	4%
Information Technology	1%	1%	1%
Health Care	0%	0%	2%
TOTAL NET EXPOSURE	76%	76%	75%

^ A major GICS reclassification was implemented during the December 2018 quarter. The changes affected the Information Technology, Communication Services (previously Telecommunication Services) and Consumer Discretionary sectors. Historical exposures have been updated for continuity.
See note 4, page 5. Numbers have been subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Changes to the Portfolio

One former high-flyer added to the portfolio was **Carvana**, which has risen 57% since our first purchase in January. Carvana is seeking to do for used cars what Amazon did for books two decades ago. We believe its online model has a good chance of success, because the attractions for the consumer are obvious – a near endless inventory of used cars to choose from, all makes, models, ages and colours, delivered to your door, with complete price transparency. No more spending days on end visiting numerous dealerships or private sellers to find the right car, and no more negotiating deals with battle-hardened, sometimes less-than-scrupulous salespeople. As a result of this appealing proposition for consumers, Carvana's revenues more than doubled to almost US$2 billion in 2018. This represents a tiny fraction of the circa US$750 billion US used car market, so one can imagine the potential, especially if one considers the company's ability to sell ancillary services – warranties, insurance and finance. The stock hit an all-time high of over US$72 in September 2018, with a valuation that placed it right into the market-darling category, before collapsing to below US$29 in December as investors soured on the prospect of owning a business that does not yet generate a profit. The Fund initiated a position in January at a very satisfactory entry point.

Another new addition to the Fund during the quarter was **Zalando**, the leading online fashion platform in Europe. Zalando has a dominant market share in Germany, and has successfully pushed into neighbouring geographies. The company has many long-term advantages relative to its competition, and we expect it will continue to take market share of online fashion sales as well as benefit from the ongoing shift away from physical stores. Its share price fell from a high of over €50 in July 2018 to a low of €21 in December 2018 on a combination of stock-specific issues and the general (but short-lived) eschewing of internet companies by investors during the sell-off. We initiated a position in the stock before the company reported its better-than-expected fourth quarter results which drove the stock price higher (+43% from our initial purchase to quarter-end).

The portfolio currently has an aggregate long exposure of around 44% to what can be broadly classified as "internet platforms". While such concentration may initially seem alarming, the aggregate is a simplistic measure that overlooks significant diversification by geography, business type, customer exposure, and valuation/growth prospects. The Fund has positions in a range of attractive opportunities, including:

- reasonably-valued, broad-based advertising giants, **Facebook** and **Alphabet** (Google), as well as their Chinese counterparts, **Alibaba**, **Tencent**, and **Sina/Weibo**;
- gravely undervalued US online bank and car-loan provider **Ally Financial**;
- the above-mentioned online fashion platform **Zalando** and its UK peer **ASOS**;

Net Currency Exposures

CURRENCY	31 MAR 2019	31 DEC 2018	31 MAR 2018
US dollar (USD)	46%	40%	42%
Euro (EUR)	25%	25%	28%
Hong Kong dollar (HKD)	11%	13%	9%
Chinese yuan (CNY)	7%	6%	4%
Indian rupee (INR)	6%	6%	2%
Japanese yen (JPY)	4%	6%	<1%
British pound (GBP)	3%	1%	2%
Norwegian krone (NOK)	3%	3%	2%
Canadian dollar (CAD)	1%	1%	<1%
Turkish lira (TRY)	1%	1%	0%
Sri Lankan rupee (LKR)	<1%	1%	1%
Korean won (KRW)	0%	1%	2%
Australian dollar (AUD)	0%	<1%	<1%
Brazilian real (BRL)	-1%	<1%	3%
Chinese yuan offshore (CNH)	-6%	-6%	0%

See note 5, page 5. Numbers have been subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Facebook Inc	USA	Communication Serv.	4.7%
Alphabet inc	USA	Communication Serv.	4.7%
Jiangsu Yanghe Brewery	China	Consumer Staples	3.6%
Stars Group Inc	Canada	Consumer Discretionary	3.4%
Autohome Inc	China	Communication Serv.	3.3%
Melco International	Hong Kong	Consumer Discretionary	3.0%
Kweichow Moutai	China	Consumer Staples	3.0%
Alibaba Group	China	Consumer Discretionary	3.0%
Lixil Group Corporation	Japan	Industrials	2.9%
China ZhengTong Auto	China	Consumer Discretionary	2.9%

As at 31 March 2019. See note 6, page 5.
Source: Platinum Investment Management Limited.

- the rapidly growing but highly-valued **Carvana**;
- **Qiwi**, Russia's equivalent of PayPal that is now rolling out the Russian version of Afterpay;
- **Schibsted**, owner of multiple leading classifieds platforms across both geographies and verticals (e.g. real estate, cars, jobs, general classifieds);
- **Scout24**, the dominant portal for real estate and autos in Germany; and
- **Autohome**, Chinese consumers' go-to website for autos.

This is by no means an exhaustive list, with further exposures to food delivery companies in various markets as well as travel and restaurant booking service providers. While this has been a significant evolution for the composition of the Fund, it is reflective of the times as consumers increasingly engage with brands such as these, as well as the value that these companies are able to generate over the long-term from their strong market positions.

The Fund exited several positions during the quarter, including Chinese dairy company Mengniu (-6% 12-month return), Latin American brewer AmBev (-10% loss from entry in August 2017), and the preference shares of auto manufacturer Hyundai (-14% loss from entry).

Mengniu looks to be facing increased competition in its core product category, while investor expectations for growth and margin improvement are elevated. AmBev is struggling with increased competition from Heineken in its home market of Brazil, alongside general consumer trends eschewing beer consumption and weak macroeconomic conditions in core markets such as Argentina. The stock is valued at a multiple that requires growth to justify, and growth is looking difficult to come by.

We exited Hyundai after a large rebound from the lows, but below our entry price. Despite the bargain-basement valuation, the problems for the company seem insurmountable. Our key concerns include the power of the Korean Metal Workers Union, which extracts higher per-worker all-in compensation than any other auto workforce around the world while simultaneously hindering Hyundai's growth in emerging markets by preventing the company from opening lower-cost plants through threats of industrial action. Another concern is Hyundai's outdated model line-up in China which is facing increasing competition from cheaper domestic brands that have dramatically closed the quality gap. We prefer to own Chinese manufacturers Dongfeng Motor and Guangzhou Auto which, while being "boring" state-owned enterprises that manufacture in joint ventures with foreign brands, feature low valuations supported by high dividend yields and large cash balances.

With the rebound in stock prices, we also took the opportunity to trim exposure to companies that have rallied strongly from their lows and thus now have less enticing valuations, warranting a smaller position. Such stocks include auto dealers China ZhengTong (up more than 30% from its October low) and China Yongda, Chinese liquor makers Jiangsu Yanghe and Kweichow Moutai, LVMH, Kering, Carvana, Hanesbrands, Anta Sports and Melco. We also exited Melco's US parent Melco Resorts and Entertainment after the stock rebounded 44% from its lows in last November.

Outlook

While markets have rallied, we are still finding pockets of value scattered around the consumer landscape, though they are becoming less obvious to the casual observer. Retail sales in the US look to be slowing as the housing market takes a downturn, but it remains to be seen whether this is a sustained trend. Given the recent decline in mortgage rates which should encourage more housing activity, the slowdown could be temporary, but a return to the tax stimulus-fuelled boom of 2018 is unlikely.

With the world's two largest economies, the US and China, having loosened monetary policy, and Europe and Japan maintaining their already extremely accommodative policies, the environment for equities looks benign, barring an all-out trade war. We will nevertheless endeavour to remain consistent in our approach, exiting positions that have reached full valuations and increasing our cash levels and/or short positions if we are unable to redeploy capital into attractive opportunities. For the present, we are some way from being in that predicament.

Notes

1. Fund returns are calculated using the net asset value (NAV) unit price (which does not include the buy/sell spread) of the stated unit class of the Fund and represent the combined income and capital returns of the stated unit class over the specified period. Fund returns are net of fees and costs, are pre-tax, and assume the reinvestment of distributions. Returns for P Class are net of any accrued investment performance fee.

   The MSCI Index returns are in Australian Dollars and are inclusive of net official dividends, but do not reflect fees or expenses. For the purpose of calculating the "since inception" returns of the MSCI Index, the inception date of C Class of the Fund is used. Where applicable, the gross MSCI Index was used prior to 31 December 1998 as the net MSCI Index did not exist then. Fund returns are provided by Platinum Investment Management Limited; MSCI index returns are sourced from FactSet.

   Platinum does not invest by reference to the weightings of the Index. A Fund's underlying assets are chosen through Platinum's bottom-up investment process and, as a result, the Fund's holdings may vary considerably to the make-up of the Index that is used as its reference benchmark. Index returns are provided as a reference only.

   The investment returns shown are historical and no warranty can be given for future performance. Historical performance is not a reliable indicator of future performance. Due to the volatility in the Fund's underlying assets and other risk factors associated with investing, investment returns can be negative, particularly in the short-term.

   The stated portfolio values of C Class and P Class of the Platinum International Fund (PIF) do not include funds invested in PIF by the Platinum International Fund (Quoted Managed Hedge Fund), a feeder fund that invests primarily in PIF. The stated portfolio values of C Class and P Class of the Platinum Asia Fund (PAF) do not include funds invested in PAF by the Platinum Asia Fund (Quoted Managed Hedge Fund), a feeder fund that invests primarily in PAF.
2. The investment returns depicted in this graph are cumulative on A$20,000 invested in C Class (standard fee option) of the specified Fund over the specified period relative to the specified net MSCI Index in Australian Dollars.
3. The geographic disposition of assets (i.e. the positions listed other than "cash" and "shorts") represents, as a percentage of the Fund's net asset value, the Fund's exposures to the relevant countries/regions through direct securities holdings and long derivatives of stocks and indices.
4. The table shows, as a percentage of the Fund's net asset value, the Fund's exposures to the relevant sectors through direct securities holdings as well as both long and short derivatives of stocks and indices. In the case of the Platinum Unhedged Fund, the Fund does not undertake any short-selling. Its net exposures are therefore the same as its long exposures.
5. The table shows the effective net currency exposures of the Fund's portfolio as a percentage of the Fund's net asset value, taking into account the Fund's currency exposures through securities holdings, cash, forwards, and derivatives. The table may not exhaustively list all of the Fund's currency exposures and may omit some minor exposures.
6. The table shows the Fund's top 10 long equity positions as a percentage of the Fund's net asset value, taking into account direct securities holdings and long stock derivatives. The designation "China" in the "Country" column means that the company's business is predominantly based in mainland China, regardless of whether the company's securities are listed on exchanges within mainland China or on exchanges outside of mainland China.

Disclaimers

MSCI Inc Disclaimer